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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001986

SIPDIS

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TAGS: [FAIR](#) [ECON](#) [ETRD](#) [AM](#)

SUBJECT: MONOPOLY CONTROL OF JET FUEL IMPORTS UNDERMINING
ARMENIA'S AVIATION INDUSTRY

REF: A) 03 YEREVAN 2975 B) 04 YEREVAN 2449

Classified By: DCM A.F. Godfrey for 1.4 (b,d).

SUMMARY

1. (SBU) Armenia is currently suffering from a severe jet fuel shortage which is undermining the profitability of the aviation sector and may have a long-term negative impact on Armenia's competitiveness. According to Executive Director of Armenia International Airports (AIA) Juan Pablo Gechijyan, the shortage is a result of Mika Ltd.'s de facto monopoly on jet fuel imports to Armenia. The manager of Mika Ltd., the only licensed jet fuel provider in Armenia, is an influential businessman with strong ties to the GOAM (ref A). End Summary.

SEVERE AIRCRAFT FUEL SHORTAGES

2. (SBU) We recently met with Executive Director of Armenia International Airports (AIA) Juan Pablo Gechijyan to discuss local press reports about shortages of aviation fuel in Armenia. AIA is a private company that has managed Zvartnots Airport under a 30-year concession agreement since 2002. According to Gechijyan, the fuel shortage is severe and stems from local supplier Mika Ltd's failure to meet the terms of its contract with AIA. AIA only received 2500 tons of the 17,000 tons of fuel Mika Ltd. was contracted to deliver between August and October. As a result, AIA has officially limited fuel sales to one ton per flight. Gechijyan told us, however, that certain international carriers are permitted to purchase more than the one ton limit. Country Manager for Austrian Airlines Werner J. Kruger confirmed that Austrian Airlines flights can normally purchase between two and three tons, but, he said, this is not sufficient for the flight between Yerevan and Vienna. Kruger told us that Austrian Airlines is currently using larger planes than normal to carry supplemental fuel in from Vienna to Yerevan. If this situation continues, Kruger said, Austrian Airlines may have to limit flights on this route. British Airways (BA) Sales Manager Simon Avekian confirmed that BA is also concerned about the monopoly control of jet fuel imports in Armenia, but explained that the situation is less serious for BA than for other airlines because BA flights stop over in Yerevan on the way to Central Asia where they refuel.

AIA TRYING TO DIVERSIFY SUPPLY IN THE FACE OF A MONOPOLY

3. (C) AIA plans to import fuel from airports managed by its parent holding company to supplement its current reserves. It is also negotiating with two other suppliers with experience in the Caucasus. Gechijyan said he would prefer to work with a major U.S. or European supplier if possible. He told us he had approached representatives from British Petroleum (BP), which is active in Georgia, to inquire about their ability to provide fuel and was told that, due to an informal agreement between BP and the Government of Azerbaijan, BP could not sell any fuel products to Armenia. Even if he is able to locate an alternate supplier, Gechijyan is worried that the GOAM will not allow the supplier to enter the market because of the close relationship between the GOAM and the de facto monopoly supplier, Mika Ltd.

MIKA LTD. THE LOCAL MONOPOLY

4. (C) According to Gechijyan, while there is no official monopoly on jet fuel imports, the only licensed supplier in Armenia is Mika Ltd. Mika Ltd. is managed by Mikhael Bagdasarov, who also owns the local airline Armavia, Mika Cement, a wheat importing business and the Mika gas station chain. He is reportedly a very close friend of the Minister of Defense (ref A). Both Gechijyan and Kruger speculated that Mika Ltd. is in financial trouble and, therefore, cannot secure fuel from its suppliers outside of Armenia to honor its contract with AIA.

COMMENT:

15. (SBU) While AIA will likely find a way to resolve this current shortage, the on-going problem of a lack of diversity of supply remains. Mika Ltd.'s de facto monopoly control over the jet fuel industry is damaging the competitiveness of the aviation sector in Armenia. This situation demonstrates how the monopoly control by well-connected oligarchs of a key support industry, such as jet fuel, undermines Armenia's potential for economic growth.

EVANS